

ABAG MEMO

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FM: *Chuck Forester*
Chuck Forester, Director of
Planning

TO: All interested parties

RE: Condominium Conversion Summary
Report

The conversion of rental units to condominiums is of growing concern to many local governments and organizations. This summary report assesses the process of condominium conversion of rental units across the Bay Area. Its purpose is to provide information which will enable local decision-makers to evaluate in a regional context the condominium conversion process in their own jurisdictions.

This study is part of a Master's thesis in city planning by Steven Ishino, under the direction of Martin Gellen and Kenneth Rosen of the University of California, Berkeley, and Leonard Tom, ABAG staff. The survey of condominium conversions was done under ABAG auspices.

For further information, contact Dan Lopez of ABAG.

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SUMMARY

The conversion of rental apartments to condominium ownership has become a growing phenomenon throughout the San Francisco Bay Area.

- o From January 1970 to June 1979, a total of 20,320 condominium conversions had been approved by local planning departments in the Bay Area.
- o Conversion activity is widespread; eight of the nine counties and 45 of the 92 cities in the Bay Area reported some conversions.
- o The recent growth in the number of conversions has been dramatic; the yearly total has doubled each year since 1975 and the 7,390 units approved in the first half of this year is already nearly twice the total for all of last year.
- o Conversions represent only 1.14 percent of all occupied housing units, but nearly 37 percent of all condominium units in the Bay Area.
- o Conversions represent 10 percent or more of the rental stock in at least 13 cities in the Bay Area. Suburban areas, where rental housing is scarce in relation to for-sale housing, have lost the largest percentage of their rental stock to conversions.
- o The decline of the rental housing stock through conversion to condominiums is heightened by the low level of multifamily construction and the shift to construction of new condominium units. There were 35,000 multifamily housing permits issued in 1972. In comparison, there were only 13,000 such permits issued in 1978. This decline was compounded by the fact that 30-35 percent of these units were condominiums, and therefore not part of the rental stock.
- o San Francisco and Oakland head the list of the ten major conversion markets; however, the suburban areas of Mountain View, San Mateo, Walnut Creek, Concord, Santa Clara and Larkspur account for one-third of the total number of units converted in the region.

The trend toward conversion to condominiums has grown out of the increasing demand for condominium ownership, the declining profitability of rental apartments, and the inadequate production rates of both single family and multifamily units.

- o Factors affecting the increasing demand for condominium ownership include: changes in household formation and the average size of households, increased household incomes and employment, the increased proportion of "empty-nesters" and retired persons, the maturing of the "baby boom" generation, rising housing costs, and changes in tastes and preferences.
- o Factors affecting the declining profitability of rental apartment ownership include: rising operating expenses, rent controls, and changes in tax laws.
- o Advantages to the converter include: entrepreneurial opportunities, low acquisition prices relative to new construction, avoids restrictions on new construction, higher market values, and the opportunity to "cash-out".

- o Advantages to purchasers include: tax deductions, equity appreciation, security of tenure, relatively low purchase prices, convenience and ease of maintenance, and amenities.

Regulation of condominium conversions has become a growing concern and a spreading pattern across the Bay Area.

- o The loss of rental units has resulted in a diminished supply of rental housing types, increased rents, and the forced relocation of tenants, particularly the elderly, low and moderate income households, and those without investment reserves.
- o At least 39 jurisdictions in the Bay Area have adopted condominium conversion ordinances, while 18 others are in the process of drafting conversion controls.

1) Controls to protect tenants:

- o Provisions adopted to protect the rental stock: at least 23 cities have imposed moratoriums of 60 days to 2 years on condominium conversions. Nine jurisdictions, including Marin County, Saratoga and Santa Rosa prohibit conversions when the rental vacancy rate falls below 3%. San Francisco has an annual limit of 1,000 conversions, while Rohnert Park accepts applications for conversions only during the months of September and October.
- o Provisions adopted to protect tenants include: notification of tenants, control of rent increases during conversion, tenant consent to conversion, and public hearings on conversion requests.
- o Provisions adopted to assist in tenant relocation include: termination of tenancy, lease extensions, relocation assistance, and reimbursement of moving expenses.
- o Provisions adopted to facilitate homeownership include: discounts to tenant purchasers, reserve units for low and moderate income households, and downpayment assistance.

2) Controls to protect purchasers:

- o Provisions adopted to upgrade buildings include: compliance with all current codes, improvement of the property for ownership, and design review.
- o Provisions adopted to protect purchasers include: preparation of building reports, submission of organizational documents, warranties and a "cooling-off" period at purchase.

The shift of rental apartments to condominium ownership is likely to continue and to increase in the future.

- o Closer monitoring of changes in the housing market is essential if local authorities are to regulate the rate of conversion and alleviate its impact in specific submarkets and therein on vulnerable tenant groups.
- o The data requirements for such a monitoring system include: the number of occupied rental apartment units, new construction, removals and vacancies by rent level and unit size.